



TO: The Honorable Mayor and City Council Members

FROM: Michael C. Van Milligen, City Manager

SUBJECT: Budget and Fiscal Policy Guidelines for Fiscal Year 2016

DATE: December 11, 2014

Budget Director Jennifer Larson is recommending adoption of the Fiscal Year 2016 Budget Policy Guidelines.

The Fiscal Year 2016 Budget Policy Guidelines do not address the recommended property tax rate as it has in past. The impact of the following has not made it possible to project a property tax rate at this time:

1. Gaming revenues generated from lease payments from the Dubuque Racing Association (DRA) have been decreased significantly (-\$555,123) based on revised projections from the DRA. This follows a \$102,301 decrease in FY 2014 and an \$811,431 decrease in FY 2015.

The State of Illinois passed a Video Gaming Act on July 13, 2009 which legalized the use of Video Gaming Terminals in liquor licensed establishments including bars, restaurants, truck stops and certain fraternal and veterans' organizations. In the part of Illinois that impacts the Dubuque market, the first year of operation of video gaming terminals generated \$1 million in revenue monthly. The use of video gaming terminals has now grown to \$9 million monthly which has caused a reduction to the gaming market in Dubuque. The Mystique Casino and Diamond Jo Casino average monthly revenue is \$8.7 million. This is a similar impact as if a casino the size of the Mystique Casino and the Diamond Jo Casino combined was built half-way between Dubuque and Rockford.

The hotel acquisition by the Dubuque Racing Association has helped to make the Mystique Casino a more competitive gaming option and is expected to generate \$400,000 in profit in calendar year 2015.

2. Vanguard Appraisals, Inc. was hired by the Dubuque Conference Board to do a property revaluation of commercial and industrial property. Vanguard applied size discounts to large office buildings, large factories and distribution buildings due to the size and limited number of buyers. Warehouse sized buildings had a size discount applied which ranged on the higher end from 35%-50% for buildings 35,000 – 50,000 square feet and greater. Office sized buildings had a size discount applied that ranged on the higher end from 15%-30% for office buildings 15,000 – 30,000 square feet and greater.

Most of Dubuque's large buildings are located within urban renewal areas. The taxable value in the Greater Downtown Urban Renewal Area was reduced \$22,142,511 which resulted in reduced tax increment financing revenue of \$666,122. The taxable value in Dubuque Industrial Urban Renewal Area was reduced \$3,197,137 which resulted in reduced tax increment financing revenue of \$96,181. The reduction in revenue in the Greater Downtown TIF urban renewal area has resulted in reduced revenues to make debt payments and it will be necessary for the general fund to support \$187,233 in FY 2016 and \$80,654 in FY 2017 of debt service payments. In addition, the Greater Downtown TIF has historically supported \$562,387 in parking related debt in the downtown. It will be necessary to increase parking fees to enable the parking fund to meet its debt obligations.

3. Most of the City's multi-residential property is located in the Greater Downtown Urban Renewal Area. Beginning in Fiscal Year 2017, multi-residential property will begin to implement a rollback which will eventually equal the residential rollback. The loss in tax revenue of \$453,252 from multi-residential property when fully implemented will not be backfilled by the State. The loss in tax revenue by year is as follows: \$140,777 in FY 2017; \$179,171 in FY 2018; \$217,565 in FY 2019; \$255,959 in FY 2020; \$294,353 in FY 2021; \$332,746 in FY 2022; \$371,140 in FY 2023; and \$453,252 in FY 2024. This change and other revenue shortfalls will require increases in rental license and inspection fees beginning in FY 2015, the current budget year, ending the subsidy of the rental inspection program by General Fund property taxes.
4. The other elements of the property tax reform passed by the Iowa Legislature in 2013 have created a tremendous amount of uncertainty in the budget process. While the State has committed to provide some funding for the City revenue reductions caused by the decrease in taxable value for commercial and industrial properties, key legislators are quoted in the newspaper from an appearance at an Iowa Taxpayers Association meeting as casting doubt on the reimbursements.

Wapello Republican House member Tom Sands was quoted as saying about the payments to cities, "I haven't seen anything at the Capitol that's been carved in stone, except the word 'Iowa' on the outside corner of the Capitol."

Republican House Speaker Kraig Paulsen said, "I think in the short term the backfill is pretty solid, in out years, as the legislature changes, that question will have to be asked and answered again."

5. There was a reduction of 4% in water usage in Fiscal Year 2014 and it is projected that there will be an additional reduction of 2% in water usage in Fiscal 2015. Even though there have been water rate increases, the realized revenue from the increases have been lower than projected due to the decline in water usage.
6. Beginning in Fiscal Year 2010, the City's auditors began reclassifying some Water Fund capital expenditures as operating expenditures. The capital expenditures that were reclassified were related to water main repairs, which in most cases were very minimal in length and did not extend the life of the asset. This reclassification has caused a \$1 million shift from capital expenditures to operating expenditures.

The Water Fund has outstanding revenue bonds that have bond covenants that require debt service coverage of 1.25 times the annual debt service payment. The 1.25 times debt service coverage must be calculated on accrual basis rather on cash basis making it much more difficult to project because the City budgets and prepares projections on a cash basis. The City will not meet the bond covenant requirement for debt service coverage in Fiscal Year 2014 or 2015.

It will be necessary to recommend a series of significant Water rate increases over the next several years to address cash flow issues and meet the water bond covenant requirement in Fiscal Year 2016. In addition, the administrative overhead that is paid by the Water fund to administrative departments will need to be reduced. This will result in a reduction of general fund revenue of \$1,029,331 in FY 2016.

7. Sanitary Sewer revenue is based off metered water, the reduction of usage is also reflected in reduced sewer revenues. The Sewer fund has outstanding State Revolving Fund revenue loans that have bond covenants that require debt service coverage of 1.10 times the annual debt service payment. The 1.10 times debt service coverage must be calculated on accrual basis rather than cash basis making it much more difficult to project because the City budgets and prepares projections on a cash basis. The City will not meet the bond covenant requirement in Fiscal Year 2014 or Fiscal Year 2015.

It will be necessary to recommend two years of significant Sewer rate increases to meet the sewer revenue bond covenant requirement for debt service coverage in Fiscal Year 2016. In addition, the administrative overhead that is paid by the Sewer fund to administrative departments will

need to be reduced significantly until the Sewer fund is able to meet the bond covenant. This will result in a reduction of general fund revenue of \$432,289 in FY 2016.

8. In November 2014, Moody's Investors Service affirmed Dubuque's Aa2 bond rating but assigned a negative outlook. In announcing the affirmation of Dubuque's Aa2 rating, Moody's noted that the City's general fund balance/reserve declines. The general fund reserve is a contingency fund and a percentage of operating expenses held in reserve for unforeseen, one-time expenses that may arise. Dubuque's general fund reserve declined from 22 percent of general fund revenues in fiscal year 2013 to 14.8 percent in FY 2014. This decline in the general fund reserve is due to planned capital expenditures of \$4.1 million in FY 2014.

Moody's prefers Aa2-rated organizations to have a general fund reserve greater than 20 percent. The City of Dubuque's fund reserves policies require a 10 percent general fund reserve and states the City may continue to add to the minimum balance when additional funds are available until 20 percent is reached.

It will be necessary for the City to begin increasing its general fund reserve which will require tax and fee increases and reductions in the capital improvement program.

9. When the Fiscal Year 2015 budget was inputted into the general ledger, the property lease for the ABC building was inadvertently entered as \$455,894 instead of \$45,894 which resulted in a revenue shortfall of \$410,000.

10. Fiscal Year 2015/2016

As in FY 2014, the City Council will need to consider a budget amendment in FY 2015, the current budget year, to reduce expenditures to reflect the revenues not meeting projections.

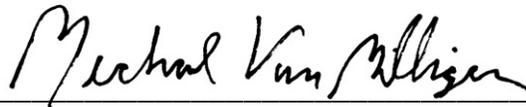
The hiring freeze and travel restrictions have been extended through June 30, 2015. They will also be a part of the Fiscal Year 2016 budget recommendation.

The Fiscal Year 2016 budget recommendation will include a reduction in the number of City employees.

In Fiscal Year 2016, there will be a recommended reduction in most Purchase of Service/Contracted Service payments and several City grant programs to minimize the recommended tax fee increases.

The City Council will conduct six public meetings prior to the adoption of a City budget after a public hearing on March 12, 2015.

I concur with the recommendation and respectfully request Mayor and City Council approval.



Michael C. Van Milligen

MCVM:jml

Attachment

cc: Barry Lindahl, City Attorney
Cindy Steinhauser, Assistant City Manager
Jennifer Larson, Budget Director

TO: Michael C. Van Milligen, City Manager
FROM: Jennifer Larson, Budget Director
SUBJECT: Budget and Fiscal Policy Guidelines for Fiscal Year 2016
DATE: December 8, 2014

I am recommending adoption of the Fiscal Year 2016 Budget Policy Guidelines. The guidelines reflect City Council direction given as part of the goal setting sessions.

The budget guidelines are developed and adopted by City Council during the budgeting process in order to provide targets or parameters within which the budget recommendation will be formulated. The final budget presented by the City Manager may not meet all of these targets due to changing conditions and updated information during budget preparation. To the extent the recommended budget varies from the guidelines, an explanation will be provided in the printed budget document.

The Fiscal Year 2016 Budget Policy Guidelines do not address the recommended property tax rate as it has in past. The impact of the following has not made it possible to project a property tax rate at this time:

1. Gaming Revenue Reduction.

- a. Gaming revenues generated from lease payments from the Dubuque Racing Association (DRA) have been decreased significantly (-\$555,123) based on revised projections from the DRA. This follows a \$102,301 decrease in FY 2014 and an \$811,431 decrease in FY 2015.
- b. The Fiscal Year 2015 projections are based on nine months of actual experience and gaming revenues are down 10%. The impact of ending greyhound racing offsets a large deficit that the Dubuque Racing Association (DRA) would have experienced otherwise. In FY 2015, the DRA will have \$3,575,000 in additional net income due to the ending of greyhound racing; however a payment of \$1 million is required to the Iowa Greyhound Association; \$359,000 is required for Hilton Gardens cash flow; \$464,000 is required for Mystique cash flow; and \$883,370 is required as additional charitable distribution as part of the five year smoothing that was previously approved.
- c. The State of Illinois passed a Video Gaming Act on July 13, 2009 which legalized the use of Video Gaming Terminals in liquor licensed

establishments including bars, restaurants, truck stops and certain fraternal and veterans' organizations. In the part of Illinois that impacts the Dubuque market, the first year of operation of video gaming terminals generated \$1 million in revenue monthly. The use of video gaming terminals has now grown to \$9 million monthly which has caused a reduction to the gaming market in Dubuque. The Mystique Casino and Diamond Jo Casino average monthly revenue is \$8.7 million. This is a similar impact as if a casino the size of the Mystique Casino and the Diamond Jo Casino combined was built half-way between Dubuque and Rockford.

- d. The recession has also impacted the gaming market. The revised DRA gaming projections include minimal growth in revenues over the next five years with the growth rate remaining at 1% through 2020.
- e. The hotel acquisition by the Dubuque Racing Association has helped to make the Mystique Casino a more competitive gaming option and is expected to generate \$400,000 in profit in calendar year 2015.

2. Revaluation of Commercial and Industrial Property Classes.

- a. Vanguard Appraisals, Inc. was hired by the Dubuque Conference Board to do a property revaluation of commercial and industrial property.
- b. Vanguard applied size discounts to large office buildings, large factories and distribution buildings due to the size and limited number of buyers. Warehouse sized buildings had a size discount applied which ranged on the higher end from 35%-50% for buildings 35,000 – 50,000 square feet and greater. Office sized buildings had a size discount applied that ranged on the higher end from 15%-30% for office buildings 15,000 – 30,000 square feet and greater.
- c. Most of Dubuque's large buildings are located within urban renewal areas. The taxable value in the Greater Downtown Urban Renewal Area was reduced \$22,142,511 which resulted in reduced tax increment financing revenue of \$666,122. The taxable value in Dubuque Industrial Urban Renewal Area was reduced \$3,197,137 which resulted in reduced tax increment financing revenue of \$96,181. The reduction in revenue in the Greater Downtown TIF urban renewal area has resulted in reduced revenues to make debt payments and it will be necessary for the general fund to support \$187,233 in FY 2016 and \$80,654 in FY 2017 of debt service payments. In addition, the Greater Downtown TIF has historically supported \$562,387 in parking related debt in the downtown. It will be necessary to increase parking fees to enable the parking fund to meet its debt obligations.

3. New multi-residential property class in Fiscal Year 2017.
 - a. Most of the City's multi-residential property is located in the Greater Downtown Urban Renewal Area. Beginning in Fiscal Year 2017, multi-residential property will begin to implement a rollback which will eventually equal the residential rollback. The loss in tax revenue of \$453,252 from multi-residential property when fully implemented will not be backfilled by the State. The loss in tax revenue by year is as follows: \$140,777 in FY 2017; \$179,171 in FY 2018; \$217,565 in FY 2019; \$255,959 in FY 2020; \$294,353 in FY 2021; \$332,746 in FY 2022; \$371,140 in FY 2023; and \$453,252 in FY 2024. This change and other revenue shortfalls will require increases in rental license and inspection fees beginning in FY 2015, the current budget year, ending the subsidy of the rental inspection program by General Fund property taxes.
4. The other elements of the property tax reform passed by the Iowa Legislature in 2013 have created a tremendous amount of uncertainty in the budget process. While the State has committed to provide some funding for the City revenue reductions caused by the decrease in taxable value for commercial and industrial properties, key legislators are quoted in the newspaper from an appearance at an Iowa Taxpayers Association meeting as casting doubt on the reimbursements.

Wapello Republican House member Tom Sands was quoted as saying about the payments to cities, "I haven't seen anything at the Capitol that's been carved in stone, except the word 'Iowa' on the outside corner of the Capitol."

Republican House Speaker Kraig Paulsen said, "I think in the short term the backfill is pretty solid, in out years, as the legislature changes, that question will have to be asked and answered again."

5. Water Fund metered usage decline and revenue bond covenant requirement.
 - a. There was a reduction of 4% in water usage in Fiscal Year 2014 and it is projected that there will be an additional reduction of 2% in water usage in Fiscal 2015. Even though there have been water rate increases, the realized revenue from the increases have been lower than projected due to the decline in water usage.
 - b. Beginning in Fiscal Year 2010, the City's auditors began reclassifying some Water Fund capital expenditures as operating expenditures. The capital expenditures that were reclassified were related to water main repairs, which in most cases were very minimal in length and did not extend the life of the asset. This reclassification has caused a \$1 million shift from capital expenditures to operating expenditures.
 - c. The Water Fund has outstanding revenue bonds that have bond covenants that require debt service coverage of 1.25 times the annual debt service payment. The 1.25 times debt service coverage must be

calculated on accrual basis rather on cash basis making it much more difficult to project because the City budgets and prepares projections on a cash basis. The City will not meet the bond covenant requirement for debt service coverage in Fiscal Year 2014 or 2015.

- d. It will be necessary to recommend a series of significant Water rate increases over the next several years to address cash flow issues and meet the water bond covenant requirement in Fiscal Year 2016. In addition, the administrative overhead that is paid by the Water fund to administrative departments will need to be reduced. This will result in a reduction of general fund revenue of \$1,029,331 in FY 2016.

6. Sanitary Sewer Fund metered usage decline and revenue bond covenant requirement.

- a. Sanitary Sewer revenue is based off metered water, the reduction of usage is also reflected in reduced sewer revenues.
- b. The Sewer fund has outstanding State Revolving Fund revenue loans that have bond covenants that require debt service coverage of 1.10 times the annual debt service payment. The 1.10 times debt service coverage must be calculated on accrual basis rather than cash basis making it much more difficult to project because the City budgets and prepares projections on a cash basis. The City will not meet the bond covenant requirement in Fiscal Year 2014 or Fiscal Year 2015.
- c. It will be necessary to recommend two years of significant Sewer rate increases to meet the sewer revenue bond covenant requirement for debt service coverage in Fiscal Year 2016. In addition, the administrative overhead that is paid by the Sewer fund to administrative departments will need to be reduced significantly until the Sewer fund is able to meet the bond covenant. This will result in a reduction of general fund revenue of \$432,289 in FY 2016.

7. General Fund reserve.

- a. In November 2014, Moody's Investors Service affirmed Dubuque's Aa2 bond rating but assigned a negative outlook. In announcing the affirmation of Dubuque's Aa2 rating, Moody's noted that the City's general fund balance/reserve declines.
- b. The general fund reserve is a contingency fund and a percentage of operating expenses held in reserve for unforeseen, one-time expenses that may arise. Dubuque's general fund reserve declined from 22 percent of general fund revenues in fiscal year 2013 to 14.8 percent in FY 2014. This decline in the general fund reserve is due to planned capital expenditures of \$4.1 million in FY 2014.

- c. Moody's prefers Aa2-rated organizations to have a general fund reserve greater than 20 percent. The City of Dubuque's fund reserves policies require a 10 percent general fund reserve and states the City may continue to add to the minimum balance when additional funds are available until 20 percent is reached.
 - d. It will be necessary for the City to begin increasing its general fund reserve which will require tax and fee increases and reductions in the capital improvement program.
8. Property lease revenue.
- a. When the Fiscal Year 2015 budget was inputted into the general ledger, the property lease for the ABC building was inadvertently entered as \$455,894 instead of \$45,894 which resulted in a revenue shortfall of \$410,000.
9. Fiscal Year 2015/2016.
- a. As in FY 2014, the City Council will need to consider a budget amendment in FY 2015, the current budget year, to reduce expenditures to reflect the revenues not meeting projections.
 - b. The hiring freeze and travel restrictions have been extended through June 30, 2015. They will also be a part of the Fiscal Year 2016 budget recommendation.
 - c. The Fiscal Year 2016 budget recommendation will include a reduction in the number of City employees.
 - d. In Fiscal Year 2016, there will be a recommended reduction in most Purchase of Service/Contracted Service payments and several City grant programs to minimize the recommended tax fee increases.

Some highlights of the document are:

- Gaming revenues generated from lease payments from the DRA have been decreased significantly (-\$555,123) based on revised projections from the DRA. The following is a ten year history of DRA lease payments to the City of Dubuque:

FY 2016 \$ 5,444,878 estimate
 FY 2015 \$ 6,000,001 budget
 FY 2014 \$ 5,345,616
 FY 2013 \$ 6,001,193
 FY 2012 \$ 5,997,888
 FY 2011 \$ 6,343,130
 FY 2010 \$ 6,820,283
 FY 2009 \$ 8,406,930

FY 2008 \$ 9,753,410
FY 2007 \$ 9,757,458
FY 2006 \$ 8,749,391

The Diamond Jo fixed payment remains at \$500,000 based on the revised parking agreement.

- The split of gaming revenues from taxes and the DRA lease (not distributions) in FY 2016 is split between operating and capital budgets at 100.0% / 0% which is a change from 97.0% operating and 3.0% capital in FY 2015. A reduction in revenue in the Greater Downtown TIF urban renewal area has resulted in debt capacity issues and it will be necessary for the general fund to support \$187,233 in FY 2016 and \$80,654 in FY 2017 of debt service payments, which will be funded by reducing the amount of gaming revenues from taxes and DRA lease that goes to capital in FY 2016 and FY 2017. In FY 2018, the split between operating and capital budgets is projected to change to 95.0% operating and 5% capital.
- Sales tax receipts are projected to increase 2% (+\$166,749) over FY 2015 budget and 3.01% over FY 2014 actual of \$4,114,075 based on FY 2015 revised revenue estimate of \$4,221,022 which includes a reconciliation payment from the State of Iowa of \$146,044 received in November and then increase at an annual rate of 2.0 percent per year. The estimates received from the State of Iowa show a 3.41% increase in the first two payments estimated for FY 2016.
- Building Permits is anticipated to increase from \$520,000 in FY 2015 to \$550,000 in FY 2016 based on an anticipated increased level of construction.
- Federal Transportation Administration (FTA) transit operating assistance is anticipated to increase 15.62 percent or \$147,652 from FY 2014 budget based on the revised FY 2015 budget received from the FTA.
- Gas and Electric franchise fees do not have a guideline recommended at this stage in the process due to the reasons mentioned in explanation 1-9 above. There will be a recommendation made to increase franchise fees; however the amount is not yet known. It is known that the minimum recommended increase will be from the current 3% to 3.5% to cover the debt needed to cover the settlement costs for the utility franchise fee lawsuit settlement.
- Industrial and riverfront property lease revenue is projected to decrease by \$173,587 in FY 2016 due to the lease for Dubuque Terminals in Ice Harbor not being renewed (\$129,500) and a decrease of \$74,666 in the rent for Dubuque Terminals Dove Harbor lease. Other property lease revenue is projected to decrease by \$421,410 in FY 2016 due to the lease for ABC Building inadvertently budgeted at \$455,894 instead of \$45,894 in FY 2015.
- The Municipal Fire and Police Retirement System of Iowa Board of Trustees City contribution for Police and Fire retirement decreased from 30.41 percent in FY 2015 to 27.77 percent in FY 2016 (general fund savings of \$374,447). The

Municipal Fire and Police Retirement City contribution is expected to decrease 8.03% in FY17; 2.35% in FY18; 4.69% in FY19. Also, the Iowa Public Employee Retirement System (IPERS) City contribution remained at 8.93 percent in FY 2016 and the employee contribution remained at 5.95% in FY 2016 (which did not affect the City's portion of the budget).

- The City portion of health insurance expense will decrease from \$1,190 per month per contract to \$1,040 per month per contract (based on 563 contracts) in FY 2016 (general fund savings of \$702,865). This is because the City has made a concerted effort to build up these reserves over the last few years and has reached the maximum recommended level.
- The Affordable Care Act is expected to increase employee expense in Fiscal Year 2016 by \$290,493, with increases each year thereafter.
- Natural gas expense is estimated to decrease 20 percent under FY 2014 actual expense, then 2 percent per year beyond.
- Motor vehicle fuel is estimated to decrease 20 percent under a three year average of actual, then 2.0 percent per year beyond.
- Motor vehicle maintenance is estimated to increase 10.00 percent over FY 2015 budget based on a 10.00 percent increase in the Public Works Garage overhead rate, then 2.0 percent per year and beyond.
- The increase in property tax support for Transit from FY 2015 to FY 2016 is \$6,575. The following is a ten year history of the Transit subsidy:

FY 2016	\$1,063,236	projection
FY 2015	\$1,056,661	budget
FY 2014	\$ 833,302	
FY 2013	\$1,044,171	
FY 2012	\$ 717,611	
FY 2011	\$1,078,726	
FY 2010	\$1,161,393	
FY 2009	\$1,253,638	
FY 2008	\$1,070,053	
FY 2007	\$ 923,384	
FY 2006	\$ 710,453	
FY 2005	\$ 617,048	

- FY 2013 was the first year that eligible retirees with at least twenty years of continuous service in a full-time position or retired as a result of a disability and are eligible for pension payments from the pension system can receive payment of their sick leave balance with a maximum payment of one-hundred twenty sick days payable bi-weekly over a five year period. The sick leave payout expense budget in the General Fund in FY 2015 was \$174,925 as compared to FY 2016 of \$197,751 based on qualifying employees officially giving notice of retirement.

- Greater Dubuque Development Corporation support of \$577,613 is budgeted to be paid mostly from Dubuque Industrial Center Land Sales in FY 2016. In FY 2017 and beyond Greater Dubuque Development Corporation will be paid from the General Fund.
- The Enterprise Funds have contributed to the administrative overhead of the City operation, but the General Fund has always carried most of the financial burden. In FY 2013, a multi-year process to more equitably distribute those costs across all funds was implemented. In FY16 the administrative overhead was reduced \$979,555. There was a reduction in metered water usage in FY 2014 and 2015 and water and sewer revenue bond covenants calculated on the accrual basis of accounting that have required a reduction in both the water and sewer administrative overhead recharge in FY 2016 and 2017.
- The Greater Downtown TIF Urban Renewal Area will require a transfer from the General Fund in FY 2016 of \$187,233 and FY 2017 \$80,641 for debt issued in FY 2015. These transfers will begin being repaid by the Greater Downtown TIF Urban Renewal Area in FY 2018. In FY 2016 and FY 2017 the split of gaming revenues from taxes and the DRA lease (not distributions) is split between operating and capital budgets at 100.0% / 0% which is a change from 97.0% operating and 3.0% capital in FY 2015 to cover the transfers needed for Greater Downtown TIF.

Preliminary citizen participation opportunities will be available. There will be six City Council Work Sessions prior to the adoption of the FY 2016 budget before the state mandated deadline of March 15, 2015.

JML

Attachment

cc: Barry Lindahl, City Attorney
Cindy Steinhauser, Assistant City Manager
Teri Goodmann, Assistant City Manager

BUDGET AND FISCAL POLICY GUIDELINES FOR FY 2016

OPERATING BUDGET GUIDELINES

The Policy Guidelines are developed and adopted by City Council during the budgeting process in order to provide targets or parameters within which the budget recommendation will be formulated. The final budget presented by the City Manager may not meet all of these targets due to changing conditions and updated information during budget preparation. To the extent the recommended budget varies from the guidelines, an explanation will be provided in the printed budget document.

A. CITIZEN PARTICIPATION

Guideline

To encourage citizen participation in the budget process, City Council will hold multiple work sessions in addition to the budget public hearing for the purpose of reviewing the budget recommendations for each City department and requesting public input following each departmental review.

The budget will be prepared in such a way as to maximize its understanding by citizens. A copy of the recommended budget documents will be made available with the City Clerk and in the government documents section at the Carnegie Stout Public Library. The budget can be reviewed on the City's website at www.cityofdubuque.org and copies of the budget on CD will be available.

An opportunity was provided for citizen input prior to formulation of the City Manager's recommended budget and will be provided again prior to final Council adoption, both at City Council budget work sessions and at the required budget public hearing.

B. SERVICE OBJECTIVES, ALTERNATIVE FUNDING AND SERVICE LEVELS

Guideline

The budget will identify specific objectives to be accomplished during the budget year, July 1 through June 30, for each activity of the City government. The objectives serve as a commitment to the citizens from the City Council and City administration and identify the level of service which the citizen can anticipate.

C. TWO TYPES OF BUDGET DOCUMENTS TO BE PREPARED

Guideline

The recommended City operating budget for Fiscal Year 2016 will consist of a Recommended City Council Policy Budget that is a collection of information that has been prepared for department hearings and a Citizens Guide to the Recommended FY 2016 Budget. It is anticipated these documents will be available in late January.

The Recommended City Council Policy Budget includes the following information for each department: Highlights of Prior Year's Accomplishments and Future Year's Initiatives, a financial summary, a summary of improvement packages requested and recommended, significant line items, capital improvement projects in the current year and those recommended over the next five years, organizational chart for larger departments, major goals, objectives and performance measures for each cost center within that department, and line item expense and revenue financial summaries. The purpose of these documents are to focus the attention of the City Council and the public on policy decisions involving what services the City government will provide, who will pay for them and the implications of such decisions. They will emphasize objectives, accomplishments and associated costs for the budget being recommended by the City Manager.

The Citizens Guide section of the Recommended FY 2016 Budget is a composite of tables, financial summaries and explanations, operating and capital budget messages and the adopted City Council Budget Policy Guidelines. Through graphs, charts and tables it presents financial summaries, which provide an overview of the total operating and capital budgets.

D. BALANCED BUDGET

Guideline

The City will adopt a balanced budget in which expenditures will not be allowed to exceed reasonable estimated resources. The City will pay for all current expenditures with current revenues.

E. BALANCE BETWEEN SERVICES AND TAX BURDEN

Guideline

The budget should reflect a balance between services provided and the burden of paying for those services. It is not possible or desirable for the City to provide all of the services requested by individual citizens. The City must consider the ability of citizens to pay for services in setting service levels and priorities.

F. MAINTENANCE OF EXISTING SERVICES

Guideline

To the extent possible with the financial resources available, the City should attempt to maintain the existing level of services. As often as reasonably possible, each service should be tested against the following questions: (a) Is this service truly necessary? (b) Should the City provide it? (c) What level of service should be provided? (d) Is there a better, less costly way to provide it? (e) What is its priority compared to other services? (f) What is the level of demand for the service? (g) Should this service be supported by property tax, user fees, or a combination?

G. IMPROVED PRODUCTIVITY

Guideline

Efforts should continue to stretch the value of each tax dollar and the City services that it buys through improved efficiency and effectiveness. Using innovative and imaginative approaches to old tasks, reducing duplication of service effort, creative application of new technologies and more effective organizational arrangements are approaches to this challenge.

H. USE OF VOLUNTEERS

Discussion

Out of the respect for citizens that must pay taxes, the City must seek to expand resources by continuing to get citizens directly involved in supplementing service delivery capability. Citizens are encouraged to assume tasks previously performed or provided by City government. This may require the City to change the approach to service delivery, such as, providing organizational skills, training, coordinating staff, office space, meeting space, equipment, supplies and materials, but not directly providing the more expensive full-time staff. Activities where citizens can continue to take an active role include: Library, Recreation, Parks, Five Flags Center, Transit, and Police.

Guideline

In the future, the maintenance of City services may well depend on volunteer citizen staffs. In FY 2016, efforts shall continue to identify and implement areas of City government where (a) volunteers can be utilized to supplement City employees to maintain service levels (i.e., Library, Recreation, Parks, Transit, Police) or (b) services can be "spun off" to non-government groups and sponsors.

I. RESTRICTIONS ON INITIATING NEW SERVICE

Guideline

No new service will be considered except (a) when additional revenue or offsetting reduction in expenditures is proposed or (b) when mandated by state or federal law.

J. SALARY INCREASES OVER THE AMOUNT BUDGETED TO BE FINANCED FROM BUDGET REDUCTIONS IN THE DEPARTMENT(S) OF THE BENEFITING EMPLOYEES

Discussion

The recommended budget will include salary amounts for all City employees. However, past experience shows that budgeted amounts are often exceeded by fact finder and/or arbitrator awards. Such "neutrals" do not take into account the overall financial capabilities and needs of the community and the fact that the budget is a carefully balanced and fragile thing. Such awards have caused budgets to be overdrawn, needed budgeted expenditures to be deferred, working balances to be expended and, in general, have reduced the financial condition or health of the City government. To protect the financial integrity of the City government, it is recommended that the cost of any salary adjustment over the amount provided in the budget (that is, not financed in the budget) come from reductions in the budget of the department(s) of the benefiting employees. The City has five collective bargaining agreements. The current contracts expire as follows:

<u>Bargaining Unit</u>	<u>Contract Expiration Date</u>
Teamsters Local Union No 120	June 30, 2017
Teamsters Local Union No 120 Bus Operators	June 30, 2017
Dubuque Professional Firefighters Association	June 30, 2015
Dubuque Police Protective Association	June 30, 2015
International Union of Operating Engineers	June 30, 2017

Guideline

Salary increases over the amount budgeted for salaries shall be financed from operating budget reductions in the department(s) of the benefiting employees.

K. THE AFFORDABLE CARE ACT

Guideline

The Affordable Care Act is a health care law that was signed into law on March 23, 2010 that aims to improve the current health care system by increasing access to health coverage for Americans and introducing new protections for people who have health insurance.

Employers with more than 50 full-time equivalent employees must provide affordable “minimum essential coverage” to full-time equivalent employees. The definition of a full-time equivalent employee under the Affordable Care Act is any employee that works 30 hours per week or more on average over a twelve month period (1,660 hours or more). There is a twelve month monitoring period for part-time employees. If a part-time employee meets or exceeds 30 hours per week on average during that twelve month period, the City must provide health insurance.

On July 2, 2013, the Treasury Department announced that it will postpone the employer shared responsibility mandate for one year. Based on the initial requirements of the Affordable Health Care Act, the Fiscal Year 2014 budget provided for insurance coverage effective February 1, 2014 for several part-time employees. In addition the Fiscal Year 2014 budget provided for making several part-time positions full-time on June 1, 2014.

Due to the delay of the employer shared responsibility mandate for the Affordable Health Care Act, the City delayed providing insurance coverage for eligible part-time employees and delayed making eligible part-time positions full-time until January 1, 2015.

The Standard Measurement Period was delayed from January 1, 2013 through December 31, 2013 to December 1, 2013 through November 30, 2014 with the first provision of health insurance date being January 1, 2015.

The Affordable Care Act is expected to increase employee expense in Fiscal Year 2015 by \$158,289 and in Fiscal Year 2016 by \$290,493, with incremental increases each year thereafter.

L. HIRING FREEZE

Guideline

The hiring freeze has been extended through June 30, 2015. The frozen positions will also be part of the Fiscal Year 2016 budget recommendation. The Fiscal Year 2016 budget recommendation will include a reduction of City employees.

The positions frozen in Fiscal Year 2016 are as follows:

Department	Position
Park/Recreation	Part-Time Custodian
Park	Full-Time Assistant Horticulturalist
Park/Public Works	Full-Time Assistant Horticulturalist
Park	Full-Time Maintenance Worker
Park	Full-time Park Ranger/Maintenance Worker
Park	Full-Time Maintenance Worker
Library	Part-Time Library Aide
Library	Part-Time Library Assistant
Library	Part-Time Library Assistant
City Manager's Office	Part-Time Management Intern
City Manager's Office	Full-Time Secretary
Economic Development	Full-Time Economic Development Assistant
Engineering	Full-Time Traffic Engineering Assistant
Police	Full-Time Records Clerk

M. BALANCE BETWEEN CAPITAL AND OPERATING EXPENDITURES

Guideline

The provision of City services in the most economical and effective manner requires a balance between capital (with particular emphasis upon replacement of equipment and capital projects involving maintenance and reconstruction) and operating expenditures. This balance should be reflected in the budget each year.

N. USER CHARGES

Discussion

User charges or fees represent a significant portion of the income generated to support the operating budget. It is the policy that user charges or fees be established when possible so those who benefit from a service or activity also help pay for it. This is easy in some cases and municipal utility funds have been established for certain activities, which are intended to be self-supporting. Examples of utility funds include Water User Fund, Sewer User Fund, Stormwater User Fund, Refuse Collection Fund, and Parking Fund. In other cases, a user charge is made after the Council determines

to what extent an activity is to be self-supporting. Examples of this arrangement are fees for swimming, golf and recreation programs and certain inspection programs.

The Stormwater User Fund is fully funded by stormwater use fees. The General Fund will continue to provide funding for the stormwater fee subsidies which provide a 50% subsidy for the stormwater fee charged to property tax exempt properties and low-to-moderate income residents and a 75% subsidy for residential farms.

Guideline

User fees and charges should be established where possible so that those who utilize or directly benefit from a service, activity or facility also help pay for it.

User fees and charges for each utility fund (Water User Fund, Sewer User Fund, Stormwater User Fund, Refuse Collection Fund, and Parking Fund) shall be set at a level that fully supports the total direct and indirect cost of the activity, including the cost of annual depreciation of capital assets and financing for future capital improvement projects.

The following chart shows activities with user charges and to what extent the activity is self-supporting (Adult Athletics and Recreation Classes do not include administrative charges in FY 2016):

DEPARTMENT/DIVISION	FY 2013 ACTUAL PERCENT	FY 2014 ACTUAL PERCENT	FY 2015 BUDGETED PERCENT	FY 2016 RECOMM'D PERCENT
Leisure Services Department				
<i>Recreation Division</i>				
Adult Athletics	58.4	46.5	46.9	96.4
McAleece Concessions	139.0	128.8	124.8	120.6
Youth Sports	37.4	36.4	35.2	15.1
Therapeutic & After School	12.6	11.9	11.9	7.5
Recreation Classes	39.8	33.0	19.9	75.4
Swimming	47.2	45.5	49.6	49.4
Golf Surplus to Golf Devel' Fund	106.9	90.8	97.8	101.2
<i>Park Division</i>	11.3	13.1	12.2	14.1
Library Department excl' Gift Trusts	4.2	3.9	3.5	4.4
Airport Department w/abated debt	87.4	85.9	82.8	81.8
<i>Building Services Division</i>				
Inspections	73.3	57.6	79.7	80.6
Planning Services Department	33.3	44.3	47.1	35.5
Health Services Department				
Food/Environmental Insp.	66.3	58.5	58.5	61.0
Animal Control	58.4	64.4	61.2	62.7
Housing Services Department				
General Housing Inspection	66.2	54.9	57.8	55.7
Federal Building Maint.	98.7	93.8	89.8	76.9

While the Enterprise Funds have contributed to administrative overhead, the majority has been paid by the General Fund. This is not reasonable and unduly impacts property taxes causing a subsidy to the Enterprise Funds.

Beginning in FY 2013, additional overhead recharges to the utility funds is being phased in over several years. Engineering administrative and project management expenses that are not recharged to capital projects will be split evenly between the Water, Sewer, Stormwater and General Funds. Finance accounting expenses and all other administrative departments such as Economic Development, Planning, Workforce Development, City Clerk, Legal Services and City Manager's Office will be split evenly between Water, Sewer, Stormwater, Refuse Collection and General Funds, with overhead costs being shared by the Landfill and Parking. This will be fully implemented over time.

When the overhead recharges are fully implemented, the Enterprise Funds will split the cost of administrative overhead excluding Engineering as follows:

Water	16.67%	Refuse	16.67%
Sewer	16.67%	Parking	8.33%
Stormwater	16.67%	Landfill	8.33%

Engineering Administration and Engineering Project Management will be split evenly between General Fund (25%), Water (25%), Sewer (25%) and Stormwater (25%).

O. OUTSIDE FUNDING

Discussion

The purpose of this guideline is to establish the policy that the City should aggressively pursue outside funding to assist in financing its operating and capital budgets. However, the long-term commitments required for such funding must be carefully evaluated before any agreements are made. Commitments to assume an ongoing increased level of service or level of funding once the outside funding ends must be minimized.

Guideline

In order to minimize the property tax burden, the City of Dubuque will make every effort to obtain federal, state and private funding to assist in financing its operating and capital budgets. However, commitments to guarantee a level of service or level of funding after the outside funding ends shall be minimized. Also, any matching funds required for capital grants will be identified.

P. GENERAL FUND OPERATING RESERVE OR WORKING BALANCE

Discussion

An operating reserve or working balance is an amount of cash, which must be carried into a fiscal year to pay operating costs until tax money, or other anticipated revenue comes in. Without a working balance there would not be sufficient cash in the fund to meet its obligations and money would have to be borrowed. Working balances are not available for funding a budget; they are required for cash flow (i.e., to be able to pay bills before taxes are collected).

Moody's Investor Service recommends a factor of 20 percent for "AA" rated cities. This is due to the fact that a large portion of revenue sources are beyond the City's control and therefore uncertain. In November 2014, Moody's Investors Service affirmed Dubuque's Aa2 bond rating but assigned a negative outlook. In announcing the affirmation of Dubuque's Aa2 rating, Moody's noted that the City's general fund balance/reserve declines. Dubuque's general fund reserve declined from 22 percent of general fund revenues in fiscal year 2013 to 14.8 percent in FY 2014. This decline in the general fund reserve is due to planned capital expenditures of \$4.1 million in FY 2014.

The City of Dubuque has historically adopted a general fund reserve policy as part of the Fiscal and Budget Policy Guidelines which is adopted each year as part of the budget process. During Fiscal Year 2013, the City adopted a formal Fund Reserve Policy. According to the policy for the General Fund, the City will maintain a minimum fund balance of at least 10 percent of the sum of (a) annual operating expenditures not including interfund transfers in the General Fund less (b) the amounts levied in the Trust and Agency fund and the Tort Liability Fund ("Net General Fund Operating Cost"). The City may increase the minimum fund balance by a portion of any operating surplus above the carryover balance of \$200,000 that remains in the General Fund at the close of each fiscal year. The City may continue to add to the General Fund minimum balance when additional funds are available until 20 percent of Net General Fund Operating Cost is reached.

The City of Dubuque currently has a 10% general fund reserve which represents approximately \$4,544,192.

Guideline

The guideline of the City of Dubuque is to increase the General Fund working balance or operating reserve by a minimum of \$500,000 in FY 2016.

Q. USE OF UNANTICIPATED, UN-OBLIGATED, NONRECURRING INCOME

Discussion

Sometimes income is received that was not anticipated and was not budgeted. Often this money is not recurring and reflects something, which happened on a one-time basis to generate the "windfall".

Nonrecurring income must not be spent for recurring expenses. To do so causes a funding shortfall the next budget year before even starting budget preparation. Nonrecurring expenditures would include capital improvements and equipment purchases.

Guideline

Nonrecurring un-obligated income shall be spent only for nonrecurring expenses. Capital improvement projects and major equipment purchases tend to be nonrecurring expenditures.

R. USE OF "UNENCUMBERED FUND BALANCES"

Discussion

Historically a budget is not spent 100% by the end of the year and a small unencumbered balance remains on June 30th. In addition, income sometimes exceeds revenue estimates resulting in some unanticipated balances at the end of the year. These amounts of un-obligated, year-end balances are in turn "carried over" into the new fiscal year to help finance it.

The FY 2014-15 General Fund budget, which went into effect July 1, anticipated a "carryover balance" of \$200,000 or approximately 2 percent of the General Fund. For multi-year budget planning purposes, these guidelines assume a carryover balance of \$200,000 in FY 2016 through FY 2020.

Guideline

The available carryover General Fund balance to help finance the budget and to reduce the demand for increased taxation shall be anticipated not to exceed \$200,000 for FY 2015-16 and beyond through the budget planning period. Any amount over that shall be programmed in the next budget cycle as part of the capital improvement budgeting process.

S. PROPERTY TAX DISCUSSION

1. Assumptions - Resources

- a. Unencumbered funds or cash balances of \$200,000 will be available in FY 2016 and each succeeding year to support the operating budget.
- b. Sales tax funds are set by resolution to be used 50 percent in the General Fund for property tax relief. Sales tax receipts are projected to increase 2% (+\$166,749) over FY 2015 budget and 3.01% over FY 2014 actual of \$4,114,075 based on FY 2015 revised revenue estimate of \$4,221,022 which includes a reconciliation payment from the State of Iowa of \$146,044 received in November and then increase at an annual rate of 2.0 percent per year. The estimates received from the State of Iowa show a 3.41% increase in the first two payments estimated for FY 2016.
- c. Hotel/motel tax receipts are projected to increase 4.4 percent (\$90,360) over FY 2015 budget and 4.0 percent over FY 2015 re-estimated receipts of \$2,050,371 based on an estimated increase of 3.74 percent from FY 2014 actual to FY 2015 estimated, and then increase at an annual rate of 3 percent per year.
- d. Federal Transportation Administration (FTA) transit operating assistance is anticipated to increase 15.62 percent or \$147,652 from FY 2014 budget based on the revised FY 2015 budget received from the FTA.
- e. Miscellaneous revenue has been estimated at 2 percent growth per year over budgeted FY 2015.
- f. Building Permits is anticipated to increase from \$520,000 in FY 2015 to \$550,000 in FY 2016 based on an anticipated increased level of construction.
- g. Gaming revenues generated from lease payments from the Dubuque Racing Association (DRA) have been decreased significantly (-\$555,123) based on revised projections from the DRA. This follows a \$102,301 decrease in FY 2014 and an \$811,431 decrease in FY 2015. The following is a ten year history of DRA lease payments to the City of Dubuque:

FY 2016 \$ 5,444,878 estimate
FY 2015 \$ 6,000,001 budget
FY 2014 \$ 5,345,616
FY 2013 \$ 6,001,193
FY 2012 \$ 5,997,888
FY 2011 \$ 6,343,130
FY 2010 \$ 6,820,283
FY 2009 \$ 8,406,930
FY 2008 \$ 9,753,410

FY 2007 \$ 9,757,458
FY 2006 \$ 8,749,391

The Diamond Jo fixed payment remains at \$500,000 based on the revised parking agreement.

- h. The split of gaming revenues from taxes and the DRA lease (not distributions) in FY 2016 is split between operating and capital budgets at 100.0% / 0% which is a change from 97.0% operating and 3.0% capital in FY 2015. A reduction in revenue in the Greater Downtown TIF urban renewal area has resulted in debt capacity issues and it will be necessary for the general fund to support \$187,233 in FY 2016 and \$80,654 in FY 2017 of debt service payments, which will be funded by reducing the amount of gaming revenues from taxes and DRA lease that goes to capital in FY 2016 and FY 2017. In FY 2018, the split between operating and capital budgets will change to 95.0% operating and 5% capital.
- i. The Diamond Jo Patio lease (\$25,000) and the Diamond Jo parking privileges (\$500,000 in FY 2016) have not been included in the split with gaming revenues. This revenue is allocated to the operating budget.
- i. The residential rollback factor will increase from 54.400 percent to 55.733 percent or a 2.45 percent increase for FY 2016. The rollback has been estimated to increase 2.50% each year from Fiscal Years 2017 thru 2020. There was a revaluation of commercial and industrial property which resulted in a size discount for large office, warehouse, and industrial buildings in Fiscal Year 2016.

The increase in the residential rollback factor increases the value that each residence is taxed on. This increased taxable value for the average homeowner (\$130,367 assessed value in FY 2015 and 2016) results in more taxes to be paid per \$1,000 of assessed value. In an effort to keep property taxes low to the average homeowner, the City calculates the property tax impact to the average residential property based on the residential rollback factor and property tax rate. In a year that the residential rollback factor increases, the City recommends a lower property tax rate than what would be recommended had the rollback factor remained the same.

Commercial and Industrial taxpayers previously were taxed at 100 percent of assessed value; however due to legislative changes in FY 2013 a 95 percent rollback factor will be applied in FY 2015 and a 90 percent rollback factor will be applied in FY 2016 and beyond. The State of Iowa will backfill the loss in property tax revenue from the rollback and the backfill 100 percent in FY 2015 through FY 2017 and then the backfill will be capped at the FY 2017 level in FY 2018 and beyond. The FY 2016 State backfill for property tax loss is estimated to be \$1,172,788.

The residential rollback in Fiscal Year 1987 was 75.6481 percent as compared to 55.733 percent in Fiscal Year 2016. The rollback percent had steadily decreased since FY 1987, which has resulted in less taxable value and an increase in the City's tax rate. However, that trend began reversing in FY 2009 when the rollback reached a low of 44.0803 percent. If the rollback had remained at 75.6481 percent in FY 2015, the City's tax rate would have been \$9.03 per \$1,000 of assessed value instead of \$11.02 in FY 2015.

FY 2015 was the first year that commercial, industrial and railroad properties are eligible for a Business Property Tax Credit. The Business Property Tax Credit will be deducted from the property taxes owed and the credit is funded by the State of Iowa. Eligible businesses must file an application with the Assessor's office to receive the credit with a deadline of January 15, 2014 for applications to be considered for FY 2015. The calculation of the credit is dependent on the number of applications that were received and approved statewide versus the amount that was appropriated for the fiscal year, the levy rates for each parcel and the difference in the commercial/industrial rollback compared to residential rollback. In FY 2015, the Iowa Legislature has appropriated \$50 million for FY15; \$100 million for FY16; and \$125 million for FY17 and thereafter. The estimated initial amount of value that will be used to compute the credit in FY 2015 is \$33,000. The basic formula is the value multiplied by the difference in rollbacks of commercial and residential property then divided by one thousand and then multiplied by the corresponding levy rate. The average commercial and industrial properties (\$386,139 Commercial / \$599,500 Industrial) will receive a Business Property Tax Credit for the City share of their property taxes of \$148 in FY 2016.

FY 2017 will be the first year that a new multi-residential property class will exist. Most of the City's multi-residential property is located in the Greater Downtown Urban Renewal Area. Beginning in Fiscal Year 2017, multi-residential property will begin to implement a rollback which will eventually equal the residential rollback. The loss in tax revenue of \$453,252 from multi-residential property when fully implemented will not be backfilled by the State. The loss in tax revenue by year is as follows: \$140,777 in FY 2017; \$179,171 in FY 2018; \$217,565 in FY 2019; \$255,959 in FY 2020; \$294,353 in FY 2021; \$332,746 in FY 2022; \$371,140 in FY 2023; and \$453,252 in FY 2024.

In addition, the State of Iowa eliminated the Machinery and Equipment Tax Replacement in FY 2003 (-\$200,000); Personal Property Tax Replacement in FY 2004 (-\$350,000); Municipal Assistance in FY 2004 (-\$300,000); Liquor Sales Revenue in FY 2004 (-\$250,000); and Bank Franchise Tax in FY 2005 (-\$145,000). The combination of the decreased residential rollback, State funding cuts and increased expenses has forced the City's tax rate to increase since 1987 when the citizens passed a referendum to establish a one percent local option sales tax with 50% of the revenue going to property tax relief.

- j. FY 2016 will reflect an increase of 4.33 percent in taxable value for residential; a decrease of 5.65 percent in taxable value for commercial; and a decrease of 3.94 percent in taxable value for industrial. Overall taxable value increased 1.11 percent after deducting Tax Increment Financing values. Assessed valuations were increased 2 percent per year beyond FY 2016.
- k. Gas and Electric franchise fees do not have a guideline recommended at this stage in the process due to the reasons mentioned in explanation 1-7 above. There will be a recommendation made to increase franchise fees; however the amount is not yet known. There was an increase in franchise fees rebates in FY15 and FY16 which reduced the projected increase in revenue.
- l. For purposes of budget projections only, it is assumed that City property taxes will continue to increase at a rate necessary to meet additional requirements over resources beyond FY 2017, with the gaming revenue (from taxes and the DRA lease) split at 100.0% operating budget and 0% capital budget based on note "h" above.
- m. FY 2016 reflects the eighth year that payment in lieu of taxes is charged to the Water and Water Pollution Control funds for Police and Fire Protection. In FY 2016, the Water Pollution Control fund is charged 0.43% of building value and the Water fund is charged 0.62% of building value, for payment in lieu of taxes for Police and Fire Protection. This revenue is reflected in the General Fund and is used for general property tax relief.
- n. Industrial and riverfront property lease revenue is projected to decrease by \$173,587 in FY 2016 due to the lease for Dubuque Terminals in Ice Harbor not being renewed (\$129,500) and a decrease of \$74,666 in the rent for Dubuque Terminals Dove Harbor lease.
- o. Other property lease revenue is projected to decrease by \$421,410 in FY 2016 due to the lease for ABC Building inadvertently budgeted at \$455,894 instead of \$45,894 in FY 2015.

2. Assumptions – Requirements

- a. The Municipal Fire and Police Retirement System of Iowa Board of Trustees City contribution for Police and Fire retirement decreased from 30.41 percent in FY 2015 to 27.77 percent in FY 2016 (general fund savings of \$374,447). The Municipal Fire and Police Retirement City contribution is expected to decrease 8.03% in FY17; 2.35% in FY18; 4.69% in FY19. Also, the Iowa Public Employee Retirement System (IPERS) City contribution remained at 8.93 percent in FY 2016 and the employee contribution remained at 5.95% in FY 2016 (which did not affect the City's portion of the budget). The IPERS rate is anticipated to increase 1 percent each succeeding year according to IPERS.

- b. Employee wage increase does not have a guideline recommended at this stage in the process. The bargaining unit contracts that have been negotiated can be found in guideline J.
- c. The City portion of health insurance expense will decrease from \$1,190 per month per contract to \$1,090 per month per contract (based on 552 contracts) in FY 2016 (general fund savings of \$477,709). The City of Dubuque is self-insured and actual expenses are paid each year with the City only having stop-loss coverage for major claims. Estimates for FY 17-20 have been increased by 10 percent per year.
- d. FY 2013 was the first year that eligible retirees with at least twenty years of continuous service in a full-time position or retired as a result of a disability and are eligible for pension payments from the pension system can receive payment of their sick leave balance with a maximum payment of one-hundred twenty sick days payable bi-weekly over a five year period. The sick leave payout expense budget in the General Fund in FY 2015 was \$174,925 as compared to FY 2016 of \$197,751 based on qualifying employees officially giving notice of retirement.
- e. General operating supplies and services are estimated to increase 2 percent over actual in FY 2014. A 2 percent increase is estimated in succeeding years.
- f. Electrical energy expense is estimated to have no increase over FY 2014 actual expense, then 2 percent per year beyond. Alliant Energy is under a rate freeze through FY 2016.
- g. Natural gas expense is estimated to decrease 20 percent under FY 2014 actual expense, then 2 percent per year beyond.
- h. The Dubuque Area Convention and Visitors Bureau contract will continue at 50 percent of actual hotel/motel tax receipts.
- i. Equipment costs for FY 2016 are estimated to increase 38.19 percent over FY 2015 budget, then increase 5 percent per year beyond.
- j. Debt service is estimated based on the tax-supported unabated General Obligation bond sale for fire truck and franchise fee litigation settlement.
- k. Unemployment expense in the General Fund decreased from \$84,867 in FY 2015 to \$71,167 in FY 2016 based on past years actual experience.
- l. Motor vehicle fuel is estimated to decrease 20 percent under a three year average of actual, then 2.0 percent per year beyond.
- m. Motor vehicle maintenance is estimated to increase 10.00 percent over FY 2015 budget based on a 10.00 percent increase in the Public Works Garage overhead rate, then 2.0 percent per year and beyond.

- n. The increase in property tax support for Transit from FY 2015 to FY 2016 is \$6,575. The following is a ten year history of the Transit subsidy:

FY 2016	\$1,063,236	projection
FY 2015	\$1,056,661	budget
FY 2014	\$ 833,302	
FY 2013	\$1,044,171	
FY 2012	\$ 717,611	
FY 2011	\$1,078,726	
FY 2010	\$1,161,393	
FY 2009	\$1,253,638	
FY 2008	\$1,070,053	
FY 2007	\$ 923,384	
FY 2006	\$ 710,453	
FY 2005	\$ 617,048	

- n. Postage rates for FY 2016 are estimated to increase 5.0 percent over FY 2014 actual expense. A 5.0 percent increase is estimated in succeeding years.
- o. Insurance costs are estimated to change as follows: Workers Compensation is increasing 16.95 percent based on actual history, General Liability is increasing 1.14 percent and damage claims is increasing 34.29 percent, Property insurance is increasing 19.2 percent and Boiler Insurance is increasing 4 percent.
- p. The Section 8 Housing subsidy payment from the General Fund is estimated to decrease \$157,853 in FY 2016. In FY 2011, the City approved reducing the number of allowed Section 8 Housing Vouchers from 1,060 to 900 vouchers. This reduction in vouchers was estimated to reduce Section 8 administrative fees from HUD by \$100,000 per year. However, in the transition, the number of vouchers dropped to 803 vouchers. HUD has based the Section 8 administrative fees for FY 2016 on the lower number of vouchers held in FY 2015 which has decreased the amount of revenue received by the Section 8 program in FY 2016. The City is in the process of increasing the Section 8 Housing Vouchers back to 1,060.
- q. The Cable TV Fund no longer funds Police and Fire public education, Information Services, Health Services, Building Services, Legal Services, and City Manager's Office due to reduced revenues from the cable franchise. This is due to Mediacom's conversion from a Dubuque franchise to a state franchise in October 2009 which changed the timing and calculation of the franchise fee payments.
- r. Greater Dubuque Development Corporation support of \$577,613 is budgeted to be paid mostly from Dubuque Industrial Center Land Sales in FY 2016. In FY

2017 and beyond Greater Dubuque Development Corporation will be paid from the General Fund.

- s. The Enterprise Funds have contributed to the administrative overhead of the City operation, but the General Fund has always carried most of the financial burden. In FY 2013, a multi-year process to more equitably distribute those costs across all funds was implemented. The remaining overhead recharge will be increased ten percent each year for ten years until reaching the total overhead recharge percentage. In FY16 the administrative overhead was reduced \$979,555. There was a reduction in metered water usage in FY 2014 and 2015 and water and sewer revenue bond covenants calculated on the accrual basis of accounting that have required a reduction in both the water and sewer administrative overhead recharge in FY 2016 and 2017.
- t. The Greater Downtown TIF Urban Renewal Area will require a transfer from the General Fund in FY 2016 of \$187,233 and FY 2017 \$80,641 for debt issued in FY 2015. These transfers will begin being repaid by the Greater Downtown TIF Urban Renewal Area in FY 2018. In FY 2016 and FY 2017 the split of gaming revenues from taxes and the DRA lease (not distributions) is split between operating and capital budgets at 100.0% / 0% which is a change from 97.0% operating and 3.0% capital in FY 2015 to cover the transfers needed for Greater Downtown TIF.

IMPACT ON AVERAGE RESIDENTIAL PROPERTY - EXAMPLE

<u>ACTUAL - PAST HISTORY</u>	<u>CITY TAX CALCULATION</u>	<u>ACTUAL PERCENT CHANGE</u>	<u>CHANGE IF HTC 100% FUNDED</u>	<u>DOLLAR CHANGE</u>
FY 1989	"City" Property Tax	\$ 453.99	- 11.40%	- \$ 58.39
FY 1990	"City" Property Tax	\$ 449.94	- 0.89%	- \$ 4.04
FY 1991	"City" Property Tax*	\$ 466.92	+ 3.77%	+\$ 16.98
FY 1992	"City" Property Tax	\$ 483.63	+ 3.58%	+\$ 16.71
FY 1993	"City" Property Tax*	\$ 508.73	+ 5.19%	+\$ 25.10
FY 1994	"City" Property Tax	\$ 510.40	+ 0.30%	+\$ 1.51
FY 1995	"City" Property Tax*	\$ 522.65	+ 2.43%	+\$ 12.41
FY 1996	"City" Property Tax	\$ 518.10	- 0.87%	- \$ 4.54
FY 1997	"City" Property Tax*	\$ 515.91	- 0.42%	- \$ 2.19
FY 1998	"City" Property Tax	\$ 512.25	- 0.71%	- \$ 3.66
FY 1999	"City" Property Tax*	\$ 512.25	- 0.00%	\$ 0.00
FY 2000	"City" Property Tax	\$ 511.38	- 0.17%	- \$ 0.87
FY 2001	"City" Property Tax	\$ 511.38	0.00%	\$ 0.00
FY 2002	"City" Property Tax	\$ 511.38	0.00%	\$ 0.00
FY 2003	"City" Property Tax*	\$ 485.79	- 5.00%	-\$ 25.58
FY 2004	"City" Property Tax	\$ 485.79		\$ 0.00
FY 2004	With Homestead Adj.	\$ 493.26	+ 1.54%	+\$ 7.46
FY 2005	"City" Property Tax*	\$ 485.93		+\$ 0.14
FY 2005	With Homestead Adj.*	\$ 495.21	+ 0.40%	+\$ 1.95
FY 2006	"City" Property Tax(1)	\$ 494.27		+\$ 8.34
FY 2006	With Homestead Adj. (1)	\$ 504.62	+ 1.90%	+\$ 9.41
FY 2007	"City" Property Tax*(2)	\$ 485.79		-\$ 8.48
FY 2007	With Homestead Adj.*	\$ 496.93	- 1.52%	-\$ 7.69
FY 2008	"City" Property Tax	\$ 496.93		\$ 0.00
FY 2008	With Homestead Adj.	\$ 510.45	+ 2.72%	+\$13.52
FY 2009	"City" Property Tax	\$ 524.53		+\$14.08
FY 2009	With Homestead Adj.	\$ 538.07	+ 5.41%	+\$27.62
FY 2010	"City" Property Tax	\$ 538.07		+\$ 0.00
FY 2010	With Homestead Adj.	\$ 550.97	+ 2.40%	+\$12.90
FY 2011	"City" Property Tax	\$ 564.59		+\$13.62
FY 2011	With Homestead Adj. (3)	\$ 582.10	+ 5.65%	+\$31.13
FY 2012	"City" Property	\$ 611.19		+\$29.09
FY 2012	With Homestead Adj. (3)	\$ 629.78	+ 8.19%	+\$47.68
FY 2013	"City" Property	\$ 661.25		+\$31.47
FY 2013	With Homestead Adj. (3)	\$ 672.76	+ 6.82%	+\$42.98
FY 2014	"City" Property	\$ 705.71	+ 4.90%	+\$32.95
FY 2015	"City" Property	\$ 728.48	+ 3.23%	+\$22.77
Average FY 1989-FY 2015 with Homestead Adj.			+ 1.39%	+ \$ 8.00
Average FY 1989-FY 2015 without Homestead Adj.				+ \$ 4.35

* Denotes year of State-issued equalization orders.

^ Impact to the average homeowner if the State funds the Homestead Property Tax Credit at 62%.

(1) The FY 2006 property tax calculation takes into account the 6.2% valuation increase for the average residential homeowner as determined by the reappraisal.

(2) Offsets the impact of the State reduced Homestead Property Tax Credit in FY 2005 & 2006.

(3) The City adopted a budget in FY 2011 and 2012 that provided no increase to the average homeowner. The State of Iowa under funded the Homestead Property Tax Credit in both years costing the average homeowner an additional \$18.59 in FY 2012 and \$11.51 in FY 2013. This provided no additional revenues to the City, as this money would have come to the City from the State if they appropriated the proper amount of funds.

State of Iowa Homestead Property Tax Credit History

* 2002-2003		Funded 100% of the Homestead Property Tax Credit
* 2003-2004		Funded 85% of the Homestead Property Tax Credit
* 2004-2005		Funded 81% of the Homestead Property Tax Credit
* 2005-2006		Funded 78% of the Homestead Property Tax Credit
* 2006-2007		Funded 77% of the Homestead Property Tax Credit
* 2007-2008		Funded 73% of the Homestead Property Tax Credit
* 2008-2009		Funded 72% of the Homestead Property Tax Credit
* 2009-2010		Funded 72% of the Homestead Property Tax Credit
* 2010-2011		Funded 64% of the Homestead Property Tax Credit
* 2011-2012		Funded 62% of the Homestead Property Tax Credit
* 2012-2013		Funded 78% of the Homestead Property Tax Credit
2013-2014		Funded 100% of the Homestead Property Tax Credit

The Homestead Property Tax Credit was established by the state legislature to reduce the amount of property tax collected. The intent of the credit was to be a form of tax relief and provide an incentive for home ownership. The State Homestead Property Tax Credit works by discounting the tax collected on the first \$4,850 of a property's taxable value. This has no impact on what the City receives from property tax collections, but provides tax relief for the average homeowner.

Beginning FY 2004, the State of Iowa did not fully fund the State Homestead Property Tax Credit resulting in the average homeowner paying the unfunded portion. Again this has no impact on what the City receives, however as a result has caused the average homeowner to pay more taxes.

IMPACT ON COMMERCIAL PROPERTY - EXAMPLE

<u>ACTUAL - PAST HISTORY</u>	<u>CITY TAX CALCULATION</u>	<u>PERCENT CHANGE</u>	<u>DOLLAR CHANGE</u>
FY 1989 "City" Property Tax	\$2,106.42	-15.43%	-\$ 384.19
FY 1990 "City" Property Tax	\$2,086.50	- .95%	-\$ 19.92
FY 1991 "City" Property Tax*	\$2,189.48	+ 4.94%	+\$ 102.98
FY 1992 "City" Property Tax	\$2,280.18	+ 4.14%	+\$ 90.70
FY 1993 "City" Property Tax*	\$2,231.05	- 2.15%	-\$ 49.13
FY 1994 "City" Property Tax	\$2,250.15	+ 0.86%	+\$ 19.10
FY 1995 "City" Property Tax*	\$2,439.60	+ 8.42%	+\$ 189.45
FY 1996 "City" Property Tax	\$2,439.60	+ 0.00%	+\$ 0.00
FY 1997 "City" Property Tax*	\$2,659.36	+ 9.01%	+\$ 219.76
FY 1998 "City" Property Tax	\$2,738.43	+ 2.97%	+\$ 79.07
FY 1999 "City" Property Tax*	\$2,952.03	+ 7.80%	+\$ 213.60
FY 2000 "City" Property Tax	\$2,934.21	- 0.60%	-\$ 17.82
FY 2001 "City" Property Tax	\$2,993.00	+ 2.01%	+\$ 58.86
FY 2002 "City" Property Tax	\$2,910.25	- 2.77%	-\$ 82.84
FY 2003 "City" Property Tax*	\$3,186.27	+ 9.48%	+\$ 276.03
FY 2004 "City" Property Tax	\$3,278.41	+ 2.89%	+\$ 92.15
FY 2005 "City" Property Tax*	\$3,349.90	+ 2.18%	+\$ 71.48
FY 2006 "City" Property Tax ⁽¹⁾	\$3,152.52	- 5.89%	-\$ 197.38
FY 2007 "City" Property Tax*	\$3,538.03	+12.23%	+\$ 385.50
FY 2008 "City" Property Tax	\$3,668.64	+ 4.26%	+\$ 150.62
FY 2009 "City" Property Tax*	\$3,524.48	- 3.63%	-\$ 133.94
FY 2010 "City" Property Tax	\$3,524.48	- 0.85%	-\$ 30.23
FY 2011 "City" Property Tax	\$3,585.16	+ 1.72%	+\$ 60.68
FY 2012 "City" Property Tax	\$3,736.64	+ 4.23%	+\$ 151.48
FY 2013 "City" Property Tax	\$3,855.96	+ 3.19%	+\$ 119.32
FY 2014 "City" Property Tax	\$3,942.14	+ 2.24%	+\$ 86.20
FY 2015 "City" Property Tax*	\$3,896.93	- 1.15%	-\$ 45.21
Average FY 1989-2015		+ 1.82%	+\$ 52.09

*** Denotes year of State-issued equalization orders**

(1) The FY 2006 property tax calculation takes into account the 3% valuation decrease for commercial property as determined by the reappraisal.

(2) FY 2016 is the first year of the Business Property Tax Credit estimated at \$148 and rollback to 95%. FY 2016 the rollback is 90%.

IMPACT ON INDUSTRIAL PROPERTY - EXAMPLE

	<u>ACTUAL - PAST HISTORY</u>	<u>CITY TAX CALCULATION</u>	<u>PERCENT CHANGE</u>	<u>DOLLAR CHANGE</u>
FY 1989	"City" Property Tax	\$5,900.35	-15.40%	-\$1,074.65
FY 1990	"City" Property Tax	\$5,844.55	- .90%	-\$ 55.80
FY 1991	"City" Property Tax	\$6,133.00	+ 4.90%	+\$ 288.45
FY 1992	"City" Property Tax	\$6,387.05	+ 4.10%	+\$ 254.05
FY 1993	"City" Property Tax	\$6,249.45	- 2.20%	-\$ 137.60
FY 1994	"City" Property Tax	\$6,302.95	+ 0.90%	+\$ 53.50
FY 1995	"City" Property Tax	\$5,891.05	- 6.50%	-\$ 411.90
FY 1996	"City" Property Tax	\$5,891.05	+ 0.00%	+\$ 0.00
FY 1997	"City" Property Tax	\$5,690.75	- 3.40%	-\$ 200.30
FY 1998	"City" Property Tax	\$5,700.56	+ .17%	+\$ 9.81
FY 1999	"City" Property Tax	\$5,536.70	- 2.87%	-\$ 163.86
FY 2000	"City" Property Tax	\$5,358.00	- 3.23%	-\$ 178.70
FY 2001	"City" Property Tax	\$5,533.00	+ 3.28%	+\$ 175.55
FY 2002	"City" Property Tax	\$5,380.42	- 2.77%	-\$ 153.13
FY 2003	"City" Property Tax	\$5,106.00	- 5.10%	-\$ 274.40
FY 2004	"City" Property Tax	\$5,136.50	+ .60%	+\$ 30.50
FY 2005	"City" Property Tax	\$5,036.00	- 1.96%	-\$ 100.50
FY 2006	"City" Property Tax ⁽¹⁾	\$5,814.61	+15.46%	+\$ 778.61
FY 2007	"City" Property Tax	\$5,983.21	+ 2.90%	+\$ 168.60
FY 2008	"City" Property Tax	\$6,184.95	+ 3.37%	+\$ 201.74
FY 2009	"City" Property Tax	\$5,976.44	- 3.37%	-\$ 208.51
FY 2010	"City" Property Tax	\$5,909.69	- 1.12%	-\$ 66.75
FY 2011	"City" Property Tax	\$6,011.44	- 1.72%	+\$ 101.75
FY 2012	"City" Property Tax	\$6,265.43	+ 4.23%	+\$ 254.00
FY 2013	"City" Property Tax	\$6,465.48	+ 3.19%	+\$ 200.04
FY 2014	"City" Property Tax	\$6,610.00	+ 2.24%	+\$ 144.53
FY 2015	"City" Property Tax	\$6,131.80	- 7.23%	-\$ 478.20
Average FY 1989-FY 2015			- 0.46%	-\$ 31.23

(1)The FY 2006 property tax calculation takes into account the 19.9% valuation increase for industrial property as determined by the reappraisal.

2) FY 2016 is the first year of the Business Property Tax Credit estimated at \$148 and rollback to 95%. FY 2016 the rollback is 90%.

History of Increases in Property Tax Askings

<u>Fiscal Year</u>	<u>"City" Property Tax Askings</u>	<u>% Change in Tax Askings</u>		<u>Present Impact on Homeowner**</u>
FY 1989	\$10,918,759	-12.0%	Sales Tax initiated	-11.4%
FY 1990	\$10,895,321	- 0.2%		- 0.9%
FY 1991	\$11,553,468	+ 6.0%		+ 3.8%
FY 1992	\$12,249,056	+ 6.0%		+ 3.6%
FY 1993	\$12,846,296	+ 4.9%		+ 5.0%
FY 1994	\$13,300,756	+ 3.5%		+ 0.3%
FY 1995	\$13,715,850	+ 3.1%		+ 2.4%
FY 1996	\$14,076,320	+ 2.6%		- 0.9%
FY 1997	\$14,418,735	+ 2.4%		- 0.4%
FY 1998	\$14,837,670*	+ 2.9%		- 0.7%
FY 1999	\$15,332,806*	+ 3.3%		0.0%
FY 2000	\$15,285,754	- 0.3%		- 0.2%
FY 2001	\$15,574,467	+ 1.9%		0.0%
FY 2002	\$15,686,579	+ 0.7%		0.0%
FY 2003	\$15,771,203	+ 0.5%		- 5.0%
FY 2004	\$16,171,540	+ 2.5%		0.0%
FY 2005	\$16,372,735	+ 1.2%		0.0%
FY 2006	\$16,192,215	- 1.1%		+ 1.7%
FY 2007	\$17,179,994	+ 6.1%		- 1.7%
FY 2008	\$18,184,037	+ 5.8%		0.0%
FY 2009	\$18,736,759	+ 3.0%		+2.8%
FY 2010	\$19,095,444	+ 1.9%		0.0%
FY 2011	\$19,878,962	+ 4.1%		+2.5%
FY 2012	\$21,284,751	+ 7.1%		+5.0%
FY 2013	\$22,758,753	+ 6.9%		+5.0%
FY 2014	\$23,197,623	+ 1.9%		+4.9%
FY 2015	\$24,833,951	+7.2%		+3.2%
Average FY 1989-2015		+ 2.66%		+0.70%

*Without TIF Accounting change. **Does not reflect State unfunded portion of Homestead Credit.

The Diamond Jo expansion opened on December 2, 2008 tracking fairly closely to the need to increase property tax revenues with the corresponding decreases in the Dubuque Racing Association lease payments.

Impact on Tax Askings and Average Residential Property

To maintain the current level of service based on the previous assumptions would require the following property tax asking increases:

<u>Year</u>	<u>"City" Property Tax Askings (000)</u>	<u>% Increase</u>	<u>% / \$ Impact on Avg. Residential Property*</u>
FY 2014	\$23,198		
FY 2015	\$24,834	+ 7.19%	+3.23% / +\$22.77

Impact on Tax Askings and Average Residential Property

The following is a historical City tax rate comparison:

<u>Fiscal Year</u>	<u>"City" Tax Rate</u>	<u>% Change in Tax Rate</u>
FY 1987	14.5819	
FY 1988	13.9500	-4.33%
FY 1989	11.8007	-15.41%
FY 1990	11.6891	-0.95%
FY 1991	12.2660	4.94%
FY 1992	12.7741	4.14%
FY 1993	12.4989	-2.15%
FY 1994	12.6059	0.86%
FY 1995	11.7821	-6.54%
FY 1996	11.7821	0.00%
FY 1997	11.3815	-3.40%
FY 1998	11.4011	0.17%
FY 1999	11.0734	-2.87%
FY 2000	10.7160	-3.23%
FY 2001	11.0671	3.28%
FY 2002	10.7608	-2.77%
FY 2003	10.2120	-5.10%
FY 2004	10.2730	0.60%
FY 2005	10.0720	-1.96%
FY 2006	9.6991	-3.70%
FY 2007	9.9803	2.90%
FY 2008	10.3169	3.37%
FY 2009	9.9690	-3.37%
FY 2010	9.8577	-1.12%
FY 2011	10.0274	1.72%
FY 2012	10.4511	4.22%
FY 2013	10.7848	3.19%
FY 2014	11.0259	2.23%
FY 2015	11.0259	0%
Average FY 1987-2015		-0.90%

Guideline

As described in the City Manager's transmittal memo, there will not be a property tax guideline recommended at this stage in the process.

Note: One percent increase in the tax rate will generate approximately \$250,035.

CIP BUDGET GUIDELINES

T. INTEGRATION OF CAPITAL RESOURCES

Guideline

In order to obtain maximum utilization, coordination and impact of all capital improvement resources available to the City, state and federal block and categorical capital grants and funds shall be integrated into a comprehensive five year Capital Improvement Program (CIP) for the City of Dubuque.

U. INTEGRITY OF CIP PROCESS

Guideline

The City should make all capital improvements in accordance with an adopted Capital Improvement Program (CIP). If conditions change and projects are to be added and/or deleted from the CIP, the changes shall be made only after approval by the City Council.

V. RENOVATION AND MAINTENANCE

Guideline

Capital improvement expenditures should concentrate on renovating and maintaining existing facilities to preserve prior community investment.

W. NEW CAPITAL FACILITIES

Guideline

Construction of new or expanded facilities which would result in new or substantially increased operating costs will be considered only if: 1) their necessity has been clearly demonstrated; 2) their operating cost estimates and plans for providing those operating costs have been developed; 3) they can be financed in the long term; and 4) they can be coordinated and supported within the entire system.

X. COOPERATIVE PROJECTS

Guideline

Increased efforts should be undertaken to enter into mutually beneficial cooperative capital improvement projects with the county, school district and private groups. Cost sharing to develop joint-use facilities and cost sharing to improve roads and bridges are examples.

Y. USE OF GENERAL OBLIGATION BONDS

Discussion

The Iowa Constitution limits the General Obligation debt of any city to 5 percent of the actual value of the taxable property within the city. The Iowa legislature has determined that the value for calculating the debt limit shall be the actual value of the taxable property prior to any "rollback" mandated by state statute.

On October, 15, 2012, the City Council adopted a formal Debt Management Policy for the City of Dubuque. While this debt management policy just put into writing what the City of Dubuque was already doing in practice, there were some changes to those policies. The most significant components of the Debt Management Policy include an internal policy of maintaining the City's general obligation outstanding debt at no more than 95% (except as a result of disasters) of the limit prescribed by the State constitution as of June 30th of each year; City will not use short-term borrowing to finance operating needs except in the case of an extreme financial emergency which is beyond its control or reasonable ability to forecast. Recognizing that bond issuance costs (bond counsel, bond rating, and financial management fees) add to the total interest costs of financing, bond financing should not be used if the aggregate cost of projects to be financed by the bond issue does not exceed \$500,000; City will consider long-term financing for the construction, acquisition, maintenance, replacement, or expansion of physical assets (including land) only if they have a useful life of at least six years; City shall strive to repay 20 percent of the principal amount of its general obligation debt within five years and at least 40 percent within ten years. The City shall strive to repay 40 percent of the principal amount of its revenue debt within ten years. Total annual debt service payments on all outstanding debt of the City shall not exceed 25% of total annual receipts across all of the City's funds. As of June 30, 2013, it is projected the City will be at 17%; and it shall be the goal of the City to establish an internal reserve equal to maximum annual debt service on future general obligation bonds issued that are to be abated by revenues and not paid from ad-valorem property taxes in the debt service fund starting with debt issued after July 1, 2013. This reserve shall be established by the fund or revenue source that expects to abate the levy, and shall be carried in said fund or revenue source on the balance sheet as a restricted reserve. This reserve does not exist now, except where required

by bond covenants. This internal reserve would be implemented by adding the cost of the reserve to each debt issuance.

The FY 2014-15 assessable values for calculating the statutory debt limit is \$3,680,201,880, which indicates a total General Obligation debt capacity of \$193,113,721. Outstanding G.O. debt (including tax increment debt, TIF rebate remaining payments and general fund lease agreement) on June 30, 2015 will be \$173,866,689 (90.03 percent of the statutory debt limit) leaving an available debt capacity of \$19,247,032 (9.97 percent). It should be noted that most of the City of Dubuque's outstanding debt is not paid with property taxes (except TIF), but is abated from other revenues, except for one issuance for the replacement of a Fire Pumper truck in the amount of \$1,410,000 with debt service of \$117,280 in FY 2015. Included in the debt is \$21,848,091 of property tax rebates to businesses creating and retaining jobs and investing in their businesses.

Statutory Debt Limit

Fiscal Year	Statutory Debt Limit	Amount of Debt Subject to Statutory Debt Limit	% Debt Limit Used
2014	\$183,621,403	\$155,112,694	84.47%
2015	\$193,113,721	\$173,866,689	90.03%

The City also has debt that is not subject to the statutory debt limit. This debt includes revenue bonds. Outstanding revenue bonds payable by water, sewer and stormwater fees on June 30, 2015 will have a balance of \$115,631,650. The total City indebtedness as of June 30, 2015 is \$289,498,339. The total City indebtedness as of June 30, 2014 was \$271,906,020. The City is using debt to accomplish the projects that need to be done and to take advantage of the attractiveness of interest rates in the current market.

Part of the City's FY 2014 debt was in the form of a grant from the Iowa Flood Mitigation Program. Through a new state program, the City is able to issue \$28.25 million in revenue bonds payable from the 5 percent State Sales Tax increment for projects in the Bee Branch Watershed allowing the City to complete the Bee Branch Creek Restoration, construct permeable alleys, replace the Bee Branch flood gates, complete North End Storm Sewers, construct a Flood Control Maintenance Facility, install Water Plant Flood Control and complete 17th Street Storm Sewer over the next twenty years.

During the FY 2015 budget process, a projection of the statutory debt limit usage was presented at the public hearing to adopt the Fiscal Year 2015 budget. The following was the projection that was previously shown:

FY14	FY15	FY16	FY17	FY18	FY19	FY20
84.55%	85.49%	84.69%	77.29%	72.66%	74.37%	76.12%

These statutory debt limit usage projections have changed due to the amount of outstanding tax increment financing rebates increased from \$20,188,981 to \$25,420,949 based on increased assessed valuations; the Fiscal Year 2016 actual assessed valuation increased 1 percent instead of the 2 percent that was previously projected; and the first sales tax increment revenue bonds issued through the Iowa Flood Mitigation Program were issued as general obligation bonds not subject to annual appropriation instead of revenue bonds subject to annual appropriation which caused the issuance to count against the City's debt limit.

The revised projection of the statutory debt limit usage is as follows:

FY14	FY15	FY16	FY17	FY18	FY19	FY20
84.47%	90.03%	86.40%	80.28%	76.10%	66.76%	82.71%

There is a projected debt issuance of \$12 million in the stormwater fund related to the Bee Branch Watershed project in FY 2020.

As we approach the preparation of the FY 2016-2020 Capital Improvement Program (CIP) the problem is not the city's capacity to borrow money but (a) how to identify, limit and prioritize projects which justify the interest payments and (b) how to balance high priority projects against their impact on the property tax rate.

Guideline

There are many high priority capital improvement projects, which need to be constructed during the FY 2016-2020 period. The reductions in DRA rent and distribution over the years has increased the need to borrow for projects. As in the past, debt will be required on several major capital projects, that being the Bee Branch Watershed Project, Airport Improvements, Park Improvements, Sidewalk and Street Improvements, Sanitary Sewer Fund, Parking Fund and Water Fund. In FY 2016-2020 borrowings will also include smaller projects and equipment replacements such as Park developments and Public Works equipment. These smaller borrowings will be for a term not exceeding the life of the asset and not less than six years in accordance to the Debt Management Policy. Alternative sources of funds will always be evaluated (i.e. State Revolving Loan Funds) to maintain the lowest debt service costs.

The City is applying for State and Federal grants to minimize the amount of local dollars needed for City projects. Since February 2009, the City and its partners have received \$173,672,623. The following is a list of recent grants received by the City only:

Grant	Project	Award Amount
State of Iowa Flood Mitigation Program	Bee Branch Creek Watershed	\$98,494,178
Community Development Block Grant	Caradco Building	\$10,199,000
State of Iowa Sponsorship Project	Green Alleys	\$ 9,400,000
State of Good Repairs Grant	Intermodal Facility	\$ 8,000,000
Transportation Investment Generating Economic Recovery (TIGER)	Millwork District Complete Streets	\$ 5,600,000
State Revolving Loan Fund Green Project	Upper Bee Branch	\$4,400,000
State of Iowa I-JOBS	Lower Bee Branch	\$ 3,950,000
Lead Paint Grant	Lead Paint Removal	\$ 3,090,000
U.S. Department of Transportation State of Good Repair	Bus Replacements	\$ 2,300,000
Vision Iowa RECAT	Bee Branch Restoration	\$2,250,000
Community Development Block Grant	Linseed Oil Building	\$2,200,000
Federal Aviation Administration	New Terminal Complex	\$1,987,313
Parks to People	Park System	\$1,900,000
U.S. Economic Development Administration	Central Parking Ramp	\$ 1,500,000
Iowa Finance Authority Workforce Housing Loan	Caradco Building	\$ 1,500,000
U.S. Department of Transportation Clean Fuels	Bus Replacement	\$ 1,500,000
Iowa Power Fund	Smarter City Initiative	\$ 1,400,000
State of Iowa Sponsorship Project	Catfish Creek Watershed	\$ 1,400,000
FEMA Public Assistance	North Fork Sanitary Improvements	\$ 1,004,229
U.S. Housing and Urban Development	Green and Healthy Homes	\$ 1,000,000
State Revolving Loan Fund Green Project	Smart Water Meters	\$ 1,000,000
NSB Grant	Bee Branch Trails	\$1,000,000
Iowa Clean Air Attainment Program	Smart Transit	\$ 614,105
Energy Efficiency Conservation Block Grant	Comprehensive Strategy	\$ 574,700
State of Iowa I-JOBS	Southwest Arterial	\$ 558,967
Homeless Prevention Funds	Homeless Prevention	\$ 502,294
Iowa Department of Transportation	Delhi Roundabout	\$ 500,000
State Competitive EECBG	US 52 Traffic Flow Optimization	\$ 500,000
Iowa Department of Transportation	Traffic Safety Grant	\$ 478,750
Neighborhood Stabilization Program	Purchase of Foreclosed Homes	\$ 444,000
Federal Environmental Protection Agency	Brownfields Grant	\$ 400,000
Federal Transit Administration	3 Bus Replacements	\$ 384,939

Grant	Project	Award Amount
Justice Assistance Grant	Police Initiatives	\$ 360,320
Federal Highway Infrastructure	1 Bus Replacement	\$ 349,000
State Revolving Loan Funds	North Fork Catfish Creek Stormwater and Sanitary	\$ 337,000
Community Development Block Grant Formula Funds	Homeownership Rehabs/Green Alleys	\$ 328,269
Iowa Clean Air Attainment Program (ICAAP) Grant	The Jule Medical Loop	\$ 300,160
Public Transit Infrastructure Grant	ARC Transfer Center	\$ 289,375
Resource Enhancement and Protection Grant	Northwest Arterial Trail	\$ 200,000
Resource Enhancement and Protection Grant	Northwest Arterial Trail	\$ 200,000
Iowa Clean Air Attainment Program	Transit Shopping Circulator	\$ 187,836
Iowa Economic Department Administration	Catfish Creek Management Plan	\$ 187,330
AmeriCorps Grant	Various Programs	\$ 186,201
Iowa Department of Transportation	Airport Improvements	\$ 136,456
Iowa Department of Transportation	Airport Entry Improvements	\$ 108,456
MRT Grant	Bee Branch Trails	\$ 100,000
Federal Firefighters Assistance Grant	Smoke Detectors/Extinguishers	\$ 78,549
Iowa Department of Natural Resources	Various Improvements	\$ 79,374
State Energy Program	18 th & Central Energy Improvements	\$ 69,831
DuPont Lead Abatement Grant	Lead Abatement	\$ 50,000
Iowa Department of Transportation	Heritage Trail Parking Lot	\$ 50,000
Iowa Department of Cultural Affairs	Eagle Point Park	\$ 15,000
Iowa Community Cultural Grant	Arts Coordinator Salary	\$ 13,021
Dr. Frank Henry Landes Preservation Fund for Iowa	Update Design Guidelines	\$ 5,000
State Historical Society of Iowa	Old Town Neighborhood	\$ 4,500
Historical Resource Development Program	Digitize City Directories	\$ 2,970
Dubuque Old House Enthusiasts	Digitize City Directories	\$ 1,500
Total		\$173,672,623

Z. ROAD USE TAX FUND

Discussion

Actual Road Use Tax Fund receipts are as follows:

FY 1985 - \$2,069,065	FY 2000 - \$4,671,656
FY 1986 - \$2,207,467	FY 2001 - \$4,628,072
FY 1987 - \$2,259,436	FY 2002 - \$4,620,514
FY 1988 - \$2,379,592	FY 2003 - \$4,696,399
FY 1989 - \$2,617,183	FY 2004 - \$4,806,295
FY 1990 - \$3,037,587	FY 2005 - \$4,798,667
FY 1991 - \$3,122,835	FY 2006 - \$4,831,935
FY 1992 - \$3,119,087	FY 2007 - \$4,809,990
FY 1993 - \$3,121,357	FY 2008 - \$4,944,336
FY 1994 - \$3,343,678	FY 2009 - \$4,788,633
FY 1995 - \$3,484,524	FY 2010 - \$5,105,327
FY 1996 - \$3,841,921	FY 2011 - \$5,253,650
FY 1997 - \$3,977,528	FY 2012 - \$5,469,256
FY 1998 - \$4,072,296	FY 2013 - \$5,521,744
FY 1999 - \$4,415,192	FY 2014 - \$5,755,518

The FY 2015 budget was based on receiving \$5,537,856 in Road Use Tax funds. In FY 2015, 100 percent of the Road Use Tax income is in the operating budget. In FY 2016, the budget will be based on the State of Iowa increasing the gas tax 2 cents per year over the next five years.

Guideline

It is preferable to shift Road Use Tax funds to the capital budget for street maintenance and repair to reduce the need to borrow funds for routine street maintenance and improvements. This shift cannot occur until such time as there are increased revenues or reduced expense that would allow this shift without a property tax impact.

AA. COMMERCIAL AND INDUSTRIAL DEVELOPMENT

Guideline

Current City, commercial and industrial development efforts should be continued to (a) preserve current jobs and create new job opportunities and (b) enlarge and diversify the economic base. Financing these efforts and programs should continue to be a high priority.

BB. HOUSING

Guideline

In order to maintain an adequate supply of safe and decent housing, the City should strive to preserve existing single family and rental housing and provide opportunities for development of new housing, particularly owner occupied, within the City's corporate limits for all citizens, particularly for people of low and moderate income. Workforce rental housing is becoming increasingly important and the City provides assistance for building rehabilitations.

CC. SALES TAX

Guideline

Thirty percent of projected sales tax receipts will be used for: (a) the reduction by at least 75 percent of street special assessments and (b) the maintenance and repair of streets. Twenty percent will be used for: (a) the upkeep of City-owned property such as sidewalks, steps, storm sewers, walls, curbs, traffic signals and signs, bridges and buildings and facilities (e.g., Airport, Five Flags Center, Library, Law Enforcement Center, City Hall, fire stations, parks and swimming pools); (b) Transit equipment such as buses; (c) riverfront and wetland development; and (d) economic development projects.

DD. NET CASH PROCEEDS (SURPLUS DISTRIBUTION) FROM THE DUBUQUE RACING ASSOCIATION

The contract with the Dubuque Racing Association calls for distribution at the end of its fiscal year, December 31st, of 50 percent of its net cash operating funds to the City of Dubuque. In early-February, the City receives payment of proceeds to be distributed. These proceeds are then allocated for capital improvements, with the highest priority given to reducing the City's annual borrowing.

The Dubuque Racing Association provides the City with projections of future distributions since gaming is a highly volatile industry the estimates are discounted prior to including them in the City's Five Year CIP.

One hundred percent of the February 2016 projections of operating surplus have been anticipated as resources to support the Fiscal Year 2016 capital improvement projects.

This level will be maintained for the Fiscal Year 2017 surplus estimate and then reduced by 5 percent for FY 2018 resources, 10 percent for FY 2019, and 15 percent for FY 2020 resources.

Guideline

In Fiscal Year 2016, the City anticipates distribution of a significant amount of net cash proceeds for use in the Capital Improvement Program. These amounts will be budgeted in the Five Year CIP in the year they are received and will be used to reduce required General Obligation borrowing. The three out-years will be discounted by 5 percent, 10 percent, and 15 percent respectively.

EE. EMPHASIS ON INITIATIVES THAT REDUCE FUTURE OPERATING BUDGET EXPENSE

Guideline

Capital improvement expenditures that will reduce future maintenance and operating expense will receive priority funding and these types of initiatives will be encouraged in all departments and funding sources as a means of maximizing the use of available resources. This emphasis reflects fiscally responsible long range planning efforts.

FF. USE OF GAMING RELATED RECEIPTS

Guideline

On April 1, 2004, a new lease took effect with the Dubuque Racing Association for lease of the Dubuque Greyhound Park and Casino. This new lease was negotiated after the FY 2005 budget was approved and raised the lease payment from ½% of coin-in to 1% of coin-in. This new lease and the expansion of gaming at Dubuque Greyhound Park and Casino, from 600 gaming positions to 1,000 gaming positions, effective August 1, 2005, provided additional revenues to the City of Dubuque.

In FY 2004 the split of gaming taxes and rents between operating and capital budgets was 50% operating and 50% capital. In FY 2005 this split was changed to 75% operating and 25% capital. In FY 2009 the split was 76% operating and 24% capital.

In FY 2010, the budget was changed to reflect the actual split of 85% operating and 15% capital. The operating portion of the split now includes the debt service required on the 2002 general obligation bonds for the America's River Project that was previously considered as part of the capital portion of the DRA lease. Debt obligations are considered a continuing annual expense and are more accurately reflected as part of the operating portion of the DRA lease.

In FY 2011, the budget was changed to reflect a split of gaming taxes and rents between operating and capital budgets of 86.5% operating and 13.5% capital. FY 2013 changed the split to 90.0% operating and 10.0% capital.

In FY 2015, the budget was changed to reflect a split of gaming taxes and rents between operating and capital budgets of 97% operating and 3.0% capital.

In FY 2016, the budget was changed to reflect a split of gaming taxes and rents between operating and capital budgets of 100% operating and 0.0% capital. A reduction in revenue in the Greater Downtown TIF urban renewal area has resulted in reduced revenues to make debt payments issues and it will be necessary for the general fund to support \$187,233 in FY 2016 and \$80,654 in FY 2017 of debt service payments, which will be funded by reducing the amount of gaming revenues from taxes and DRA lease that goes to capital in FY 2016 and FY 2017. In FY 2018, the split between operating and capital budgets will change to 95.0% operating and 5% capital.

The Diamond Jo expanded to a land based barge casino facility and increased to 1,100 slots on December 1, 2008. This expansion was projected to decrease the Mystique gaming market and correspondingly the coin-in by just over 21 percent. Based on the projected market share loss, the City did not receive a distribution of cash flows from the Dubuque Racing Association (DRA) in Fiscal Years 2009 and 2010.

DRA distributions restarted in FY 2011 instead of the projected year of FY 2012.

The reduction in the DRA's market share and the downturn in the local economy impact the City's lease payment from the DRA. The current lease requires the DRA to pay the City 1 percent of coin in from slot machines and 4.8 percent of gross revenue from table games. In FY 2009, the City's estimated lease payments through FY 2013 were reduced \$7.1 million based on projections from the DRA. In FY 2010, gaming revenues generated from lease payments from the DRA were decreased an additional \$4.8 million through FY 2014 based on revised projections from the DRA. In FY 2011, the City's estimated lease payments through FY 2016 were reduced \$1 million based on updated projections from the DRA. In FY 2012, the City's estimated lease payments through FY 2016 were reduced an additional \$3.2 million based on revised projections from the DRA. In FY 2013, The City's estimated lease payments through FY 2017 were reduced an additional \$2.9 million based on revised projections from the DRA. In FY 2014, the City's estimated lease payments through FY 2018 were reduced \$3.2 million based on the updated projections from the DRA.

In FY 2015, the DRA provided the City revised estimated lease payments for FY 2016 through FY 2020 which were reduced \$3,118,283 from the prior year. From FY 2009 thru FY 2020, the City's lease payments have been reduced \$25.3 million.

In Fiscal Year 2015, gaming revenues at the Mystique Casino are down 10%. The impact of ending greyhound racing offsets a large deficit that the Dubuque Racing Association (DRA) would have experienced otherwise. In FY 2015, the DRA will have \$3,575,000 in additional net income due to the ending of greyhound racing; however a payment of \$1 million is required to the Iowa Greyhound Association; \$359,000 is required for Hilton Gardens cash flow; \$464,000 is required for Mystique cash flow;

and \$883,370 is required as additional charitable distribution as part of the five year smoothing that was previously approved.

The State of Illinois passed a Video Gaming Act on July 13, 2009 which legalized the use of Video Gaming Terminals in liquor licensed establishments including bars, restaurants, truck stops and certain fraternal and veterans' organizations. In the part of Illinois that impacts the Dubuque market, the first year of operation of video gaming terminals generated \$1 million in revenue monthly. The use of video gaming terminals has now grown to \$9 million monthly which has caused a reduction to the gaming market in Dubuque. The Mystique Casino and Diamond Jo Casino average monthly revenue is \$8.7 million. This is a similar impact as if a casino the size of the Mystique Casino and the Diamond Jo Casino combined was built half-way between Dubuque and Rockford. In addition, the recession has also impacted the gaming market. The revised DRA gaming projections include minimal growth in revenues over the next five years with the growth rate remaining at 1% through 2020.

The hotel acquisition by the Dubuque Racing Association has helped to make the Mystique Casino a more competitive gaming option and will individually generate \$100,000 in profit in calendar year 2014 and is expected to generate \$400,000 in profit in calendar year 2015.

The 50¢ per patron tax previously received from the Diamond Jo was replaced by a \$500,000 fixed payment based on their revised parking agreement. The riverboat related tax on bets decreased from \$319,115 in FY 2015 to \$305,469 in FY 2016.